HOW CANNABIS LEGALIZATION IS CHANGING SHOPPING BEHAVIOR

Projected to be a $194B global industry by 2025, cannabis will be as disruptive to the CPG industry as Uber was to private transportation. (1)

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2018 was a historical year for cannabis. We saw firsts from a government perspective, with Canada becoming the second country, and first G7 nation, to legalize adult use cannabis, and the U.S. Food & Drug Administration approving the first cannabis-derived drug. Plus, we saw significant investments from a business perspective, especially from the alcoholic beverage industry. Constellation Brands (owner of Corona and Modelo beers) invested $4 billion into Canopy Growth, a leading Canadian cannabis producer. Miller Coors partnered with The Hydropothecary to develop non-alcoholic, cannabis-infused beverages in Canada. In the U.S., Lagunitas Brewing Company became the first general market CPG company to launch a cannabis product with their introduction of Hi-Fi Hops.

These governments and companies are following consumer demand. One in five Americans now has access to legal marijuana. According to an October 2019 Gallup poll, 66% of U.S. adults now support legal cannabis, the highest percentage ever recorded. (2)

There is no doubt that cannabis is becoming a bigger part of the consumer consideration set. Brands and retailers will need to meet consumers where they are going. The Mars Agency and Aclara Research partnered to field a study across cannabis shoppers in legal markets to understand how acceptance of cannabis products shifts consumer behavior, their perception of cannabis retailers and the shopping experience in this new channel. Our extensive research with cannabis consumers suggests cannabis will change retail in the following ways:

1. **Disrupting CPG categories.** Start-ups – and even mainstream brands – are introducing and winning with cannabis products in the health & wellness, beauty and alcoholic beverage categories.
2. **Stealing trips from mainstream retail channels.** As legal cannabis expands, it drives a shift of spending to cannabis retailers and products and away from traditional retailers and categories.
3. **Changing shoppers' expectations of retail experiences.** Today's cannabis shopping experience delivers personalization, innovation and customer service at a whole new level that will impact shopper expectations across categories.

Shoppers browsing products at MedMen's downtown Los Angeles store. Cannabis retailers have become class-leading retail stores that happen to sell marijuana and marijuana products.

Cheat Sheet: How to read this report

Hemp vs. Cannabis: What's the difference?

Scientifically speaking, cannabis and hemp are the same plant. Both are classified with the same genus - Cannabis, and the same species - Sativa. The difference is based on the predominant cannabinoids in each plant, and the legal definition.

	HEMP	CANNABIS (MARIJUANA)
HOW IT'S DEFINED	Hemp is defined as a Cannabis Sativa plant containing LESS THAN 0.3% of THC.	Cannabis, or Marijuana, is defined as a Cannabis Sativa plant containing MORE THAN 0.3% of THC.
WHERE IT'S LEGAL	CBD derived from hemp plants is federally legal in the U.S.	Marijuana is federally illegal in the U.S. Recreational marijuana is legal in 10 states. Medical marijuana is legal in another 20 states.
WHERE IT'S SOLD	Hemp products are sold in traditional retail channels today. Hemp products with under 0.3% THC cannot be sold in dispensaries.	Products with over 0.3% THC can only be sold in dispensaries, and cannot be shipped across state lines.

Methodology

Aclara Research, a cannabis insights and strategy firm, fielded a study across their **panel of 3,000+ cannabis and hemp-derived CBD shoppers** in adult use markets. This online survey, fielded in November 2018, captured **feedback from almost 400 shoppers who had recently completed a cannabis shopping trip** -- to determine the key drivers of retailer and product selection.

These initial findings are followed by a survey of over 1,500 shoppers in March 2019.

The Mars Agency has a 45+ year history of exploring emerging industries that have the potential to disrupt commerce, ensuring their clients understand and lead in these new spaces.

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Health and well-being are the new drivers of consumer demand

The cannabis shopper has changed as much as the industry itself. In 2017, Eaze, the leading cannabis delivery platform, conducted a study of its consumers. The majority were college-educated, with jobs, earning more than $75,000 a year. Fifty-eight percent reported smoking every day and 91% had jobs. With low-dosage vape pens and edibles, there are now even more cannabis products that appeal to a proactive health-conscious consumer, breaking the "lazy" stoner stereotype. Today's cannabis shopper spans demographic and attitudinal segments.

The primary reasons for cannabis use in the U.S. are all about physical and mental well-being. For many cannabis users, cannabis has replaced traditional product categories – including prescription drugs, OTC medications, alcohol and vitamin supplements.

According to the National Institutes of Health and Centers for Disease Control, these reasons for cannabis usage impact over 140 million adults. As legal access expands, more consumers will use cannabis products. (3)

REASONS FOR CANNABIS USE	% OF RESPONDENTS
Reduce pain levels	64%
Help me sleep	61%
Reduce anxiety	59%
Improve mood	48%
Manage medical condition	27%
Reduce inflammation	22%
For athletic recovery	6%
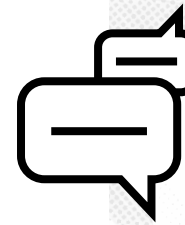
"I moved here [to Colorado] so I could buy the medicine I needed to get rid of the pain and back to work."
- Tyler, 32, cannabis patient

"It was the first time in decades I had a good night's sleep."
- Sue, 57, cannabis consumer, Baby Boomer

"1:1 products curb the post-workout inflammation."
- Aaron, 35, cannabis consumer, high-intensity athlete

"I use cannabis primarily for neuropathic pain, but I also enjoy the social aspects of it."
- Troy, 51, cannabis patient

When cannabis products are 'hired,' traditional categories and retailers are 'fired.'

Cannabis shoppers indicate they stop using traditional products after using cannabis and decrease their trips and spending with traditional retailers -- across pharmacy, vitamin supplements and over-the-counter medicines--representing $600 billion annual spending. (4)

In 2018, shoppers spent an average of **$2,200 per year on cannabis and CBD products.**

WHERE SHOPPERS PURCHASED CANNABIS AND CBD PRODUCTS (PARTICIPANTS SELECTED TOP TWO)	%
Dispensary	**85%**
Smoke shop	**23%**
Online retailer	**16%**
Natural foods	**8%**

# As shoppers shift trips, Amazon is positioned to be a destination for CBD

In addition to shopping for cannabis at dispensaries, these shoppers also select Amazon as their online retailer of choice for all other household shopping needs. 75% of cannabis shoppers have shopped Amazon in the last 30 days.

With Amazon's explosive growth and the ability of third-party sellers to sell directly to shoppers on their platform, we believe CBD and cannabis will over-index at this retailer. Amazon currently stocks over 1,000 hemp and CBD products.

Since cannabis shoppers are already regular Amazon shoppers, this retailer is positioned to capture trips - and an average of $2,200 per shopper per year in this category.

So, should traditional retailers be concerned? Absolutely. Cannabis shoppers indicate they do not want to go back to traditional products after they become category users because they are satisfied with the product efficacy.

60% of cannabis shoppers are making at least three cannabis trips a month, and 75% of shoppers shopped more than one dispensary in the last 90 days.
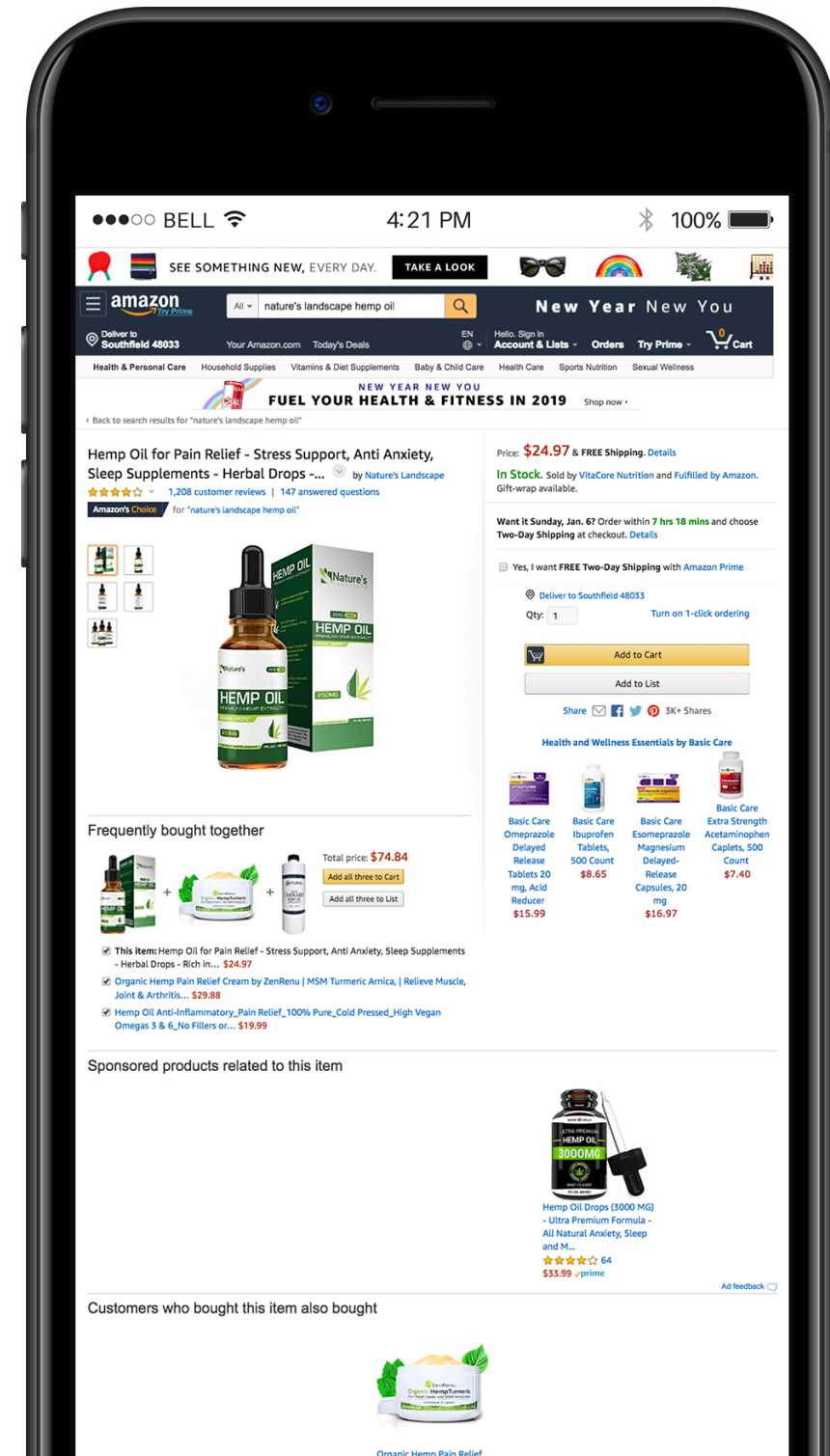
Diego Pellicer, a high-end cannabis retailer in Seattle, looks more like a five-star hotel than a pot shop. The interior features chandeliers and pillars that resemble an upscale bar meets premium boutique jeweler. The company has recently expanded from Seattle's SODO district to a shop on Alameda Avenue in Denver.

Once a cannabis shopper finds products that are effective, they begin to navigate an entirely new retail channel in which layout, communication and product assortment are driven by state regulation. Their path to purchase is unique and has implications not only for cannabis but other retail channels and categories ...

PRE-SHOP

CHECK-IN

SHOP

CHECKOUT
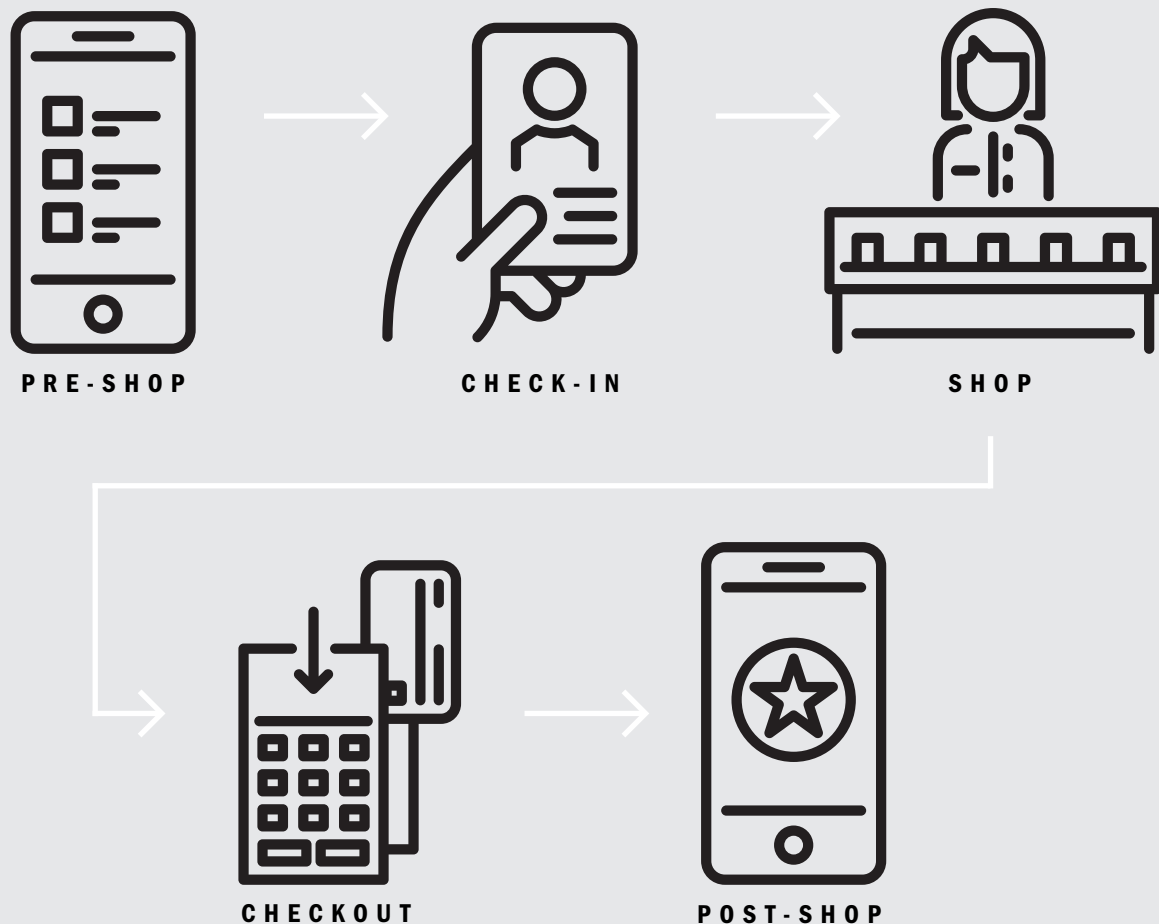
POST-SHOP

Most cannabis shoppers begin a trip with a planned list of items that they want to buy. 83% indicate they have a mental list of products - not necessarily brands - in mind when they decide to make a trip.

But, even if they have decided what they want, they haven't necessarily decided where they will shop and buy. Retailer choice in this channel is similar to choosing a traditional retailer, driven by location, selection, pricing and promotion. Shoppers indicate these are the most important criteria when choosing a dispensary to shop:

- **Wide selection of infused products** — **36%**
- **High-quality flower and concentrates** — **21%**
- **Knowledgeable staff** — **19%**
- **Convenient location to my home or work** — **15%**
- **Competitive pricing** — **9%**

Wide selection and high-quality flower are the leading retail choice drivers, indicating that products differ greatly from one dispensary to the next and shoppers are willing to go out of their way and pay a premium for quality products. The majority of dispensaries are selling their own flower. The quality of their flower becomes an indicator of the quality of the dispensary, similar to Private Label brands in traditional retail.

Convenience of location is not as important but perhaps because the majority (57%) of shoppers are shopping at a dispensary within 5 miles of their homes.
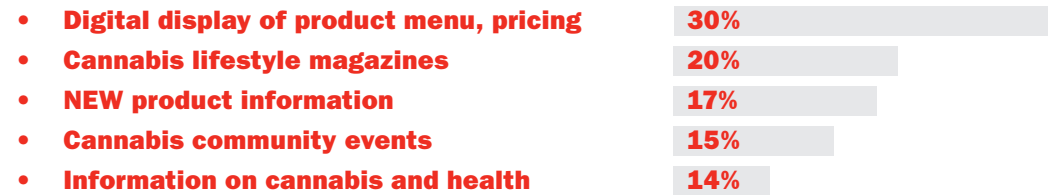
Finally, shoppers also check information sources for dispensary specials. The leading sources of assortment, promotions and pricing information are:

- **Weedmaps** — **30%**
- **Leafly** — **25%**
- **Dispensary social media** — **19%**
- **Dispensary loyalty program offers** — **14%**
- **Other sources** — **12%**

02 CHECK-IN

The retail experience is driven by state regulations which include identification collection, staff/customer ratios, limitations on staff/customer communication (e.g., discussion of health claims) and payment options. These restrictions shape the shopper experience within this new retail channel.

Similar to a doctor's office, most dispensaries have a waiting room for shoppers to sit after ID is checked. On average, shoppers wait in this area for 6 minutes. During their wait time, shoppers interact with the following information:

- **Digital display of product menu, pricing**   **30%**
- **Cannabis lifestyle magazines**   **20%**
- **NEW product information**   **17%**
- **Cannabis community events**   **15%**
- **Information on cannabis and health**   **14%**

03 SHOP

Across markets, there are primarily two types of retail layouts in cannabis stores: the 1:1 'pharmacy counter' layout, and the 'jewelry case' configuration. Across both layouts, state regulations on retail/customer ratios govern customer count in the sales room.

1. Pharmacy: Shoppers engage with a sales rep at a counter with an assortment of available products at the sales station, without the ability to browse the store. 30% shopped at a store with a pharmacy counter setup.

2. Jewelry case: Shoppers can browse the sales floor with products displayed in cases and engage with the salesperson. 65% of respondents shopped at a store with a jewelry case setup.
Over half of shoppers (51%) prefer the jewelry case format that allows them to freely move around the store and browse all of the products before selection. That said, they are still heavily reliant on staff for product selection. 44% of shoppers say they rely on recommendations from dispensary staff when buying a new product.

04 CHECKOUT

The quasi legality of cannabis shifts traditional methods of payment within this new retail channel. Cash is still the most common payment method in this channel but 7% of shoppers shop at dispensaries that offer crypto-currency payments.

05 POST-SHOP

Similar to other channels, shoppers belong to many dispensary loyalty programs and shop at multiple retailers. 70% of cannabis shoppers belong to a loyalty program where they can learn about member-only sales (88%) and new products (41%).

Eaze is the "Uber of cannabis."

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The Future of Cannabis

The legal cannabis industry is unique in that it started when technology was already disrupting traditional industries, including retail. So, it's not surprising that start-ups are popping up all over the place to be "the _____ of cannabis".

Baking Supply Company, a company that mails out ingredients and recipes to bake your own edibles, is dubbed the "Blue Apron of edibles." Meadow is the "Amazon of weed", with inventory management, patient registration and security for sellers and buyers. Can't wait for 2-day shipping? Eaze, the "Uber of cannabis", will bring it to your door.

In addition to innovative cannabis retailer platforms for shoppers, there are also several companies emerging to serve dispensaries that sell online. Baker, which is on track to be the "Shopify for cannabis", helps dispensaries comply with legal regulations and age restrictions all while building a user-friendly, modern website.

While other categories and retailers are struggling to keep up with the latest technology platforms and delivery services, the legal challenges facing the cannabis industry have driven unprecedented innovation and resulted in new winners and losers. As legal cannabis expands to more markets and continues to grow online, we expect more start-ups to emerge to further enhance the shopping experience.

Baking Supply Co. is the "Blue Apron of edibles."

Implications for Brands & Retailers

Whether your company is already in the cannabis space or watching it grow from a safe distance, here's what you should be doing today to leverage the mainstream cannabis movement:

1. **Understand Consumer Needs and impact to shopping behavior** – We know the cannabis shopper cares about staying well and this wellness trend impacts demand across multiple categories and retailers. When consumers use cannabis for wellness and symptom management, they stop using destination categories including prescription drugs, vitamin supplements and OTC medications, meaning fewer trips to traditional retailers.
Size the impact and opportunity of cannabis to your space and follow the consumer need in your category. The Aclara Research team works with retailers and brands to quantify this shift in consumer behavior - and develop shopper-centric retail and innovation strategy.

2. **Deliver Unmatched Shopping Experience** – Cannabis shops of all sizes across markets are stealing trips from traditional retailers and delivering premium, convenient and innovative shopping experiences. The Mars Agency works with brands and retailers to design in-store and online shopping experiences that drive conversion and build loyalty.

3. **Experiment with Retail Innovation** – The only industry changing faster than cannabis is retail. One example is how The Mars Agency is currently bringing voice innovation to physical retail through SmartAisle!™ We encourage all brands and retailers to test and learn with new technologies and partner with new start-ups to gain learnings and a first-mover advantage.

Cannabis flowers by Canndescent

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ACLARA RESEARCH

Aclara Research provides real-time access to cannabis and hemp consumer insights through their survey panel and online communities. Founded in 2016, the Aclara team translates the impact of evolving consumer behavior into actionable business strategies and competitive advantage.

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THE MARS AGENCY

The Mars Agency is a global marketing practice, specializing in marketing to shoppers, consumers and retailers across the ever-expanding omnicommerce environment. Mars uniquely refers to this environment as the *A-to-V Commerce*^{SM} space, which incorporates everything from Autonomous to Voice commerce.

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FOOTNOTES:
1. Bank of Montreal, November 2018, https://business.financialpost.com/cannabis/cannabis-producers-could-be-chasing-global-market-worth-194-billion-in-seven-years-bmo-report
2. Two in Three Americans now support legalizing marijuana, October 2018 Gallup, https://news.gallup.com/poll/243908/two-three-americans-support-legalizing-marijuana.aspx
3. NIH Analysis Shows Americans Are In Pain, September 2018, https://nccih.nih.gov/news/press/08112015, National Institute of Mental Health, Anxiety Disorders, https://www.nimh.nih.gov/health/statistics/any-anxiety-disorder.shtml, Short Sleep Duration across US adults, Centers for Disease Control and Prevention, https://www.cdc.gov/sleep/data_statistics.html
4. Annual Category Sales: Quintiles, IMS and Statistica, 2016
5. Aclara Research, Cannabis, Cannabidiol and Well Being study, 2018, The Shopper Experience Study 2018

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